

ENC 2

CITY OF VICTORVILLE
Victorville, California
Single Audit Report on Federal Awards
Year ended June 30, 2009

SAR
2/23/10

CITY OF VICTORVILLE
Single Audit Report on Federal Awards
Year ended June 30, 2009

TABLE OF CONTENTS

	<u>Page</u>
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Report on Compliance with Requirements Applicable to Each Major Program, Internal Control over Compliance and on the Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133	3
Schedule of Expenditures of Federal Awards	5
Notes to Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs	8
Summary Schedule of Prior Audit Findings	16



Mayer Hoffman McCann P.C.

An Independent CPA Firm

2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

City Council
City of Victorville
Victorville, California

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

We have audited the financial statements of the City of Victorville, as of and for the year ended June 30, 2009, and have issued our report thereon dated January 29, 2010. Our report was modified to add an explanatory paragraph to emphasize that substantial doubt exists about the City's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Victorville's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Victorville's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Victorville's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Victorville's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Victorville's financial statements that is more than inconsequential will not be prevented or detected by the City of Victorville's internal control. We consider items 2009-1 through 2009-7 that have been described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Victorville's internal control.

City Council
City of Victorville
Page Two

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We consider items 2009-1 through 2009-3 that have been described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses, as defined above.

The City's written response to the material weaknesses and significant deficiencies identified in our audit have not been subjected to the audit procedures applied in the audit of financial statements and, accordingly we express no opinion on them.

We also noted other matters involving internal controls over financial reporting which we have communicated to management in a separate letter dated January 29, 2010.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Victorville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, management of the City of Victorville, others within the City of Victorville, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nayer Hoffman McClann P.C.

Irvine, California
January 29, 2010



Mayer Hoffman McCann P.C.

An Independent CPA Firm

2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

City Council
City of Victorville
Victorville, California

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE AND ON
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of the City of Victorville, California, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2009. The City of Victorville's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the City of Victorville's management. Our responsibility is to express an opinion on the City of Victorville's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Victorville's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Victorville's compliance with those requirements.

In our opinion, the City of Victorville complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the City of Victorville is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Victorville's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

City Council
City of Victorville
Page Two

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the City of Victorville, our report was modified as of and for the year ended June 30, 2009, and have issued our report thereon dated January 29, 2010. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The City's written responses to the significant deficiencies identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information of City Council, management of the City of Victorville, others within the City of Victorville, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Irvine, California
January 29, 2010

CITY OF VICTORVILLE
Schedule of Expenditures of Federal Awards
Year ended June 30, 2009

Federal and State Grantor/ Pass-through Grantor/ <u>Program Title</u>	Program Identification <u>Number</u>	Federal Domestic Assistance <u>Number</u>	Federal Financial Assistance <u>Expenditures</u>	Payments to <u>Subrecipients</u>
<u>U.S. Department of Commerce</u>				
Direct assistance:				
Economic Development Administration	07-49-05631	11.302	\$ 2,021,057	-
Economic Adjustment Assistance	07-49-05386	11.307	2,406	-
Subtotal – U.S. Department of Commerce			2,023,463	-
<u>U.S. Department of Housing and Urban Development</u>				
Direct assistance:				
Community Development Block Grant	-	14.218	1,097,830	158,073
HOME Investment Partnerships Program	-	14.239	537,214	-
Subtotal – U. S. Department of Housing and Urban Development			1,635,044	158,073
<u>U.S. Department of Justice</u>				
Passed through the County of San Bernardino:				
Byrne Justice Assistance Grant Program	06-166	16.804	39,918	-
Subtotal – U.S. Department of Justice			39,918	-
<u>U.S. Department of Transportation</u>				
Direct assistance:				
Federal Aviation Association: Airport Improvement Program	03-06-0359-12	20.106	3,119	-
	03-06-0359-13	20.106	5,065,214	-
	03-06-0359-14	20.106	1,848,750	-
Subtotal			6,917,083*	-
Passed through the State of California:				
Highway Planning and Construction: Federal Surface Transportation	00-071	20.205	462,191	-
	TEA-50300/ La Mesa/Nisquali/I15	20.205	1,507,079	-
	TEA-50300/ Mojave Drive Bridge	20.205	182,310	-
Subtotal			2,151,580*	-
Passed through the County of San Bernardino:				
Highway Planning and Construction: Federal Demonstration	8-1214 A/1	20.205	1,424,037	-
	8-1155	20.205	140	-
Subtotal			1,424,177*	-

CITY OF VICTORVILLE
Schedule of Expenditures of Federal Awards
(Continued)

Federal and State Grantor/ Pass-through Grantor/ Program Title	Program Identification Number	Federal Domestic Assistance Number	Federal Financial Assistance Expenditures	Payments to Subrecipients
<u>U.S. Department of Transportation. (Continued)</u>				
Passed through the County of San Bernardino:				
Highway Planning and Construction:				
State Transportation Improve Program	La Mesa/Nisquali/115	20.205	<u>4,581,388</u>	<u>-</u>
Subtotal			<u>4,581,388*</u>	<u>-</u>
Subtotal -- U.S. Department of Transportation			<u>15,074,228</u>	<u>-</u>
<u>Environmental Protection Agency</u>				
Direct assistance:				
Air Pollution Control Program Support	CML-5380	66.001	<u>16,893</u>	<u>-</u>
Passed through the Mojave Water Agency:				
Congressionally Mandated Projects	XP-96967801-0	66.202	<u>1,147,400*</u>	<u>-</u>
Direct assistance:				
Surveys, Studies, Investigation and Special Purpose Grants	XP-96941001-0	66.606	<u>444,419*</u>	<u>-</u>
Subtotal -- Environmental Protection Agency			<u>1,608,712</u>	<u>-</u>
Total Federal Awards			<u>\$20,381,365</u>	<u>158,073</u>
* Major program				

See accompanying notes to schedule of expenditures of federal awards

CITY OF VICTORVILLE

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

(a) Scope of Presentation

The accompanying schedule presents only the expenditures incurred (and related awards received) by the City of Victorville, California ("City") that are reimbursable under federal programs of federal agencies providing financial assistance. For purposes of this schedule, financial assistance includes federal financial assistance received directly from a federal agency and federal funds received indirectly by the City from non-federal entities. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized and the portion of program expenditures that were funded with other state, local or other non-federal funds are excluded from the accompanying schedule.

(b) Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recognized when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported include any property or equipment acquisitions incurred under the federal or selected state program, as required by these agencies.

(c) Subrecipients

For the fiscal year ended June 30, 2009, payments to subrecipients consisted of the following:

Community Development Block Grant

Assistance League	\$ 5,000
Hi Desert Meals on Wheels	18,000
High Desert Homeless	20,000
Legal Aid Society	5,000
Mojave Deaf Services	6,500
Moses House Ministries	5,000
One 2 One Mentors	5,000
Sexual Assault Services	5,000
Victor Valley Domestic Violence	15,273
6 th Street After School Program	15,000
Graffiti Abatement	15,000
Crime Free Multi Housing	20,300
Inland Four Housing and Mediation	23,000
Totally Payments to Subrecipients	<u>\$158,073</u>

CITY OF VICTORVILLE
Schedule of Findings and Questioned Costs
Year ended June 30, 2009

(A) Summary of Auditors' Results

1. An unqualified report was issued by the auditors on the financial statements of the auditee. Our report was modified to add an explanatory paragraph to emphasize that substantial doubt exists about the City's ability to continue as a going concern.
2. There were seven significant deficiencies in internal control over financial reporting of which three were also considered to be material weaknesses based upon our audit of the financial statements of the auditee.
3. The audit disclosed no noncompliance which is material to the financial statements of the auditee.
4. There were no material weaknesses in internal control over major programs of the auditee.
5. An unqualified report was issued by the auditors on compliance for major programs.
6. The audit disclosed no audit findings required by the auditors to be reported under paragraph .510(a) of OMB Circular A-133.
7. The major programs of the auditee were the Environmental Protection Agency – Congressionally Mandated Projects, CFDA No. 66.202, Environmental Protection Agency – Surveys, Studies, Investigations, and Special Purpose Grants, CFDA No. 66.606, U.S. Department of Transportation – Federal Aviation Association, CFDA No. 20.106, and U.S. Department of Transportation – Highway Planning and Construction, CFDA No. 20.205.
8. The dollar threshold used to distinguish Type A and Type B programs was \$611,441.
9. The auditee did not meet the criteria to be classified as a low risk auditee for the year ended June 30, 2009, for purposes of major program determination.

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

2009-1 Need for Improved Communication over Changes in Capital Assets

During the current year's observation of capital assets it was noted that there was a significant lack of communication of the disposition of capital assets between City departments. This is a city-wide issue but it was primarily identified at the Southern California Logistics Airport Authority (SCLAA). SCLAA demolished numerous amounts of capital assets between the periods of October 2005 through April 2008

CITY OF VICTORVILLE

Schedule of Findings and Questioned Costs

(Continued)

2009-1 Need for Improved Communication over Changes in Capital Assets, (Continued)

that were not communicated in a timely fashion to the City of Victorville's finance department. The lack of communication resulted in the writing off of 72% of the SCLAA depreciable assets in the prior year. In the current year's physical inspection of the SCLAA capital assets it was identified that the capital assets were improperly written off resulting in a correction to beginning capital assets to reinstate the buildings that were previously written off that were not demolished or impaired. The result of the lack of communication caused a material weakness since the demolished capital assets were not reported in the correct prior year and an incorrect decision was made to write off capital assets in 2007 that should not have been written off had there been proper communications.

The SCLAA received this finding and recommendation on August 25, 2009 in the year ended June 30, 2008 Financial Statements. The finding remains the same during year end June 30, 2009 since the City did not have the appropriate time to implement new procedures. The City plans to correct the finding at the beginning of the 2010 fiscal year.

Recommendation

The City of Victorville should establish formal monitoring policies and procedures for maintaining the finance department personnel informed, in a timely manner, of not only capital asset acquisitions but capital assets that have been disposed of or impaired.

Management Response Regarding Corrective Action Taken or Planned

Beginning with Fiscal Year 2010, the Finance Department will distribute a listing of Capital Assets to the asset owners and custodians on an annual basis. Departments will be asked to inventory their Capital Assets and to show current operational status of each asset and to update the list for any changes not previously reported (additions, transfers, sales and disposals, relocation, replacement, upgrades, etc.). Standard Transfer/Disposal forms will be provided to facilitate this review. On a random basis, Finance will send representatives to test and confirm the inventory reports received.

This may include on-site inspections or other activities, as appropriate, in order to ensure the accuracy of the Capital Asset database.

2009-2 Adjustments Detected by the Audit Process

Paragraph 19 of the Statement on Auditing Standards No. 112 requires that the auditor include in the report of significant control deficiencies any material adjustments detected by the audit process. For the year ended June 30, 2009, material adjustments detected by the audit process were as follows:

CITY OF VICTORVILLE

Schedule of Findings and Questioned Costs

(Continued)

2009-2 Adjustments Detected by the Audit Process, (Continued)

- To record additional revenue in the amount of \$707,834 for water sales occurred in June 2009 but not billed to customers until July 2009.
- The Water Assessment District had a long term debt recorded by the City in the water enterprise fund. Additionally the City recognized a long term receivable for amount to be collected from property owners to pay off this debt. This debt is not an obligation of the City and therefore liability and the corresponding receivable has been removed from water enterprise fund.
- To record as prior period adjustment to beginning net assets, a capital asset deletion of the Municipal Utility fund that was recorded for write off due to impairment loss occurred during fiscal year ended June 30, 2007.
- To record compensated absences liability of the proprietary funds in the amount of \$422,311 and reduce compensated absence liability of the governmental funds in the same amount.
- To increase beginning net assets of the Solid Waste Management and Sanitary District proprietary funds in the amount of \$1.6 million and \$912,454 respectively, to record accounts receivable at the beginning of the year. The Solid Waste Management and Sanitary District funds revenue were previously recorded under the cash basis accounting method during fiscal year ended June 30, 2008.

Recommendation

An important element of control over financial reporting is for management to identify adjustments necessary for financial statements to be fairly stated. Whenever possible, adjustments should be reflected in the accounting records prior to the start of the audit. When this is not possible, management should identify and communicate to the auditors the potential areas of adjustment that may need to be addressed during the audit process. This is an important element of internal control to reduce the risk of material misstatement.

Management Response Regarding Corrective Action Taken or Planned

Starting with fiscal year 2010, all elements in the financial statements will be reviewed by accounting staff at the end of each fiscal period. All necessary adjustments at the end of the year will be reflected in the accounting records prior to the start of audit. Any unresolved adjustments that are required by the auditor's review will be communicated to the auditor during the audit process.

CITY OF VICTORVILLE

Schedule of Findings and Questioned Costs

(Continued)

2009-3 Need for Formal Documentation and Approval of Long-term Interfund Borrowing

As cash requirements (overdrafts) of the City are met through interfund borrowing from unrestricted funds; those interfund borrowings (if not expected to be paid within one year) should be formally approved by management and City Council as long-term interfund advances. The General Fund, Solid Waste Management, Sanitary District, Street Lighting District and the Storm Drain Utility have advanced significant amounts of cash to the Other Federal Grants Fund, Golf Course Fund, Municipal Utility Fund, as well as other funds of the City.

The Capital Impact Facilities Fund consisted of several Development Impact Fees (DIF) sub-funds that are presented as a capital project fund in City's financial statement. At June 30, 2009, the Public Building DIF Fund has borrowed a substantial amount from Road Service DIF Fund and other DIF funds. We believe that there should be a formal approval of advances between DIF funds for repayment of those amounts that were collected for specific purposes.

Recommendations

We recommend the following:

- Formally approve and document interfund long-term advances between the borrowing funds (Other Federal Grants Fund, Golf Course Fund, Municipal Utility, others) and funds from which the advance was made.
- Formally approve and document long term advances between the Public Building DIF Fund and other DIF funds.
- Implement and document monitoring controls to insure that interfund borrowing does not affect restricted funds.

Management Response Regarding Corrective Action Taken or Planned

The city is reviewing its process on Federal Grant reimbursement to enable these reimbursements to be made on a timely basis. The City is also reviewing the need to formally approve a loan to the Public Building DIF fund. The Finance Department will also incorporate a plan to provide quarterly analysis to insure interfund borrowing does not affect restricted funds.

CITY OF VICTORVILLE
Schedule of Findings and Questioned Costs
(Continued)

2009-4 Need for Improved Documentation of Compliance with Debt Covenants

At June 30, 2009 the City and its component units has over \$500 million of outstanding governmental and business type debt. These debt issuances generally have a number of covenants requiring ongoing compliance; therefore the City needs to maintain a compliance monitoring system of all debt covenants. The City has assigned an individual to continually monitor City's compliance with debt reserve requirement and bonds continuing disclosure. However, we noted that the City did not monitor its compliance with rate covenants for water bond issuances. Additionally there were certain instances of noncompliance reported in the prior year financial statements as follows;

- On January 26, 2009, Fortis Bank, NA delivered to the City a formal notice of default of the Letter of Credit Agreement used as an enhancement of the \$83,770,000 bonds issued in connection with the Victorville Municipal Utilities services capital expansion plan, citing the late financial statements as the sole reason. No further correspondences have been received from Fortis Bank, NA to indicate resolution of this noncompliance item.
- On February 19, 2009, GE Energy delivered a formal notice of default citing non-payment of the Contract Obligation. No further correspondences have been received from GE Energy to indicate resolution of this noncompliance item.

Recommendation

We recommend that the City continue its effort to monitor compliance with all debt covenants, including rate covenants for the water fund. The person who is responsible for monitoring compliance should also perform analysis to demonstrate City's compliance with rate covenants. Additionally a system of cash-flow forecasting should be maintained for each of its major debt categories and compare it with the City's debt service requirement. The review performed in efforts to monitor City's compliance with debt covenants should be documented and retained with the accounting records.

Management Response Regarding Corrective Action Taken or Planned

The City Treasurer has been designated to be responsible for continually monitoring compliance with all debt covenants. The City Treasurer will document and retain these monitoring efforts with the accounting records. The City will be in contact with Fortis Bank as to whether the formal notice of default has been resolved.

CITY OF VICTORVILLE

Schedule of Findings and Questioned Costs

(Continued)

2009-5 Need for Enhanced Finance Department Involvement in Financial Statements Preparation

During the annual audit of the City of Victorville's financial statement for fiscal year ending June 30, 2009, the City's Independent Auditor, Mayer Hoffman McCann P.C (MHM) was heavily involved in the preparation of financial statements with input from the City's finance department. MHM's involvement was needed by the City due to time constraint to issue the financial statements. We noted certain opportunities for increased involvement from the Finance Department, for future audits, in the following areas:

- The preparation of revenue classification schedule for the government wide statement of activities presentation.
- The preparation of reconciliation worksheet between fund financial statements to government wide statements.
- The coding of the City's trial balance account for fund financial statements grouping.
- Documentation of analysis that was done to demonstrate City's compliance with water bond rate covenants.
- The preparation of certain notes to the financial statements.
- The preparation of management discussion and analysis.

Recommendation

We recommend that the City consider expanding the role of the Finance Department in order to allow them the opportunity to increase their involvement in the preparation of the City's Financial Statements.

CITY OF VICTORVILLE

Schedule of Findings and Questioned Costs

(Continued)

2009-5 Need for Enhanced Finance Department Involvement in Financial Statements Preparation, (Continued)

Management Response Regarding Corrective Action Taken or Planned

Due to time constraints in getting the fiscal year 2009 financial statements published, some of the tasks that are ordinarily prepared by Finance accounting staff were prepared by MHM's auditor. Starting with fiscal year 2010, Finance staff will again be involved in the preparation of the financial statements as required by the auditor.

2009-6 Need for Improved Controls over Monitoring of Grants and Grant Reimbursement

There is a lack of inter-department communication and reconciliation with respect to the grant receivable process. The current process for recording grants receivable does not include reconciliation between the Engineering Department claiming the grant reimbursement and the Finance Department recording the grant reimbursement receivable. The Engineering Department calculates a reimbursement request by deducting the City's matching portion from total expenses incurred and then further removing any costs that are not reimbursable per the grant. As a result, the final amount of the reimbursement claim more than often varies from the actual amounts of the expenditures, which causes errors in the recording of grants receivable by the Finance Department.

As of June 30, 2009, the City's general ledger reflects \$9.2 million in grants receivable from federal grants for expenditures incurred and a negative cash of \$10 million which was remedied by short term loan from other funds. We believe that the City should be submitting grants reimbursement in a timelier manner because delay in submitting reimbursement claims to granting agencies increases the risk of the receivables being uncollectible because the government agencies may have re-programmed the unclaimed funds for other purposes. It also impacts the City's investment earnings as cash outflows for grant activity are not being reimbursed and reinvested timely.

Recommendation

It is our recommendation that the Finance Department meet with the Engineering Department at least quarterly to reconcile their balances and verify that the correct amount of grants receivable is being recorded and invoiced. Additionally, we recommend that the City analyze the grants that are currently outstanding and make efforts to submit reimbursements requests to granting agencies at least quarterly. This will help improve the City's cash flow and ensure the collectability of the grant allocation. The City should also establish procedures to monitor the grant activity to ensure timely claims are submitted.

CITY OF VICTORVILLE

Schedule of Findings and Questioned Costs

(Continued)

2009-6 Need for Improved Controls over Monitoring of Grants and Grant Reimbursement,
(Continued)

Management Response Regarding Corrective Action Taken or Planned

In fiscal year 2010, a monthly/quarterly meeting(s) will be scheduled between the various department(s) grant manager(s) and the Finance Department grant accountant. The primarily purpose of the meeting(s) will be to assist the department(s) in charge with the reconciliation of their grant expenditures prior to requesting reimbursement. An accurate reimbursement will prevent future grants receivable errors.

At the end of the fiscal year, the grant accountant will review all grants receivable and record any deferred revenue as needed. This guideline is outlined in the City's grant policy and procedure approved on May 21, 2009.

2009-7 Enhancing Security Controls Over Information Technology Systems

During our testing of user access to Active Directory, PeopleSoft, Virtual Private Network (VPN), and the Data Center, we noted two (2) exceptions where a former employee maintained logical access to PeopleSoft. A user access request form is used to control user provisioning to systems, including removal of user access. The exceptions could have been caused by a manager forgetting to submit a user access request form for these individuals following termination. Also, a periodic review of user access to City resources might have identified the error more timely.

Access controls limit or detect inappropriate access to computer resources, thereby protecting them from unauthorized modification, loss, and disclosure. Logical access controls require users to authenticate themselves (through the use of secret passwords or other identifiers) and limit the files and other resources that authenticated users can access and the actions that they can execute.

Without adequate access controls, unauthorized individuals, including outside intruders and former employees, can surreptitiously read and copy sensitive data and make undetected changes or deletions for malicious purposes or personal gain. In addition, authorized users can intentionally or unintentionally read, add, delete, modify, or execute changes that are outside their span of authority. Inadequate access controls diminish the reliability of computerized data and increase the risk of destruction or inappropriate disclosure of data.

CITY OF VICTORVILLE

Schedule of Findings and Questioned Costs

(Continued)

2009-7 Enhancing Security Controls Over Information Technology Systems. (Continued)

Recommendations

We recommend the City determine the cause of the exceptions and implement stronger controls to remove user access within a timely manner. We also recommend the City implement a periodic review of user access to City resources, including Active Directory and PeopleSoft, to identify when the user provisioning process is ineffective.

Management Response Regarding Corrective Action Taken or Planned

The City will implement stronger controls to remove user access within a timely manner. The City will also implement a periodic review of user access to City resources, including Active Directory and PeopleSoft, to identify when the user provision process is ineffective.

(C) Findings and Questioned Costs for Federal Awards as Defined in Paragraph .510(a) at OMB Circular A-133

There are no findings or questioned costs required to be reported in accordance with paragraph .510(a) of OMB Circular A-133.

CITY OF VICTORVILLE
Summary Schedule of Prior Audit Findings
Year ended June 30, 2009

The following is a status of the audit findings for the year ended June 30, 2008:

2008-1 Need for Improved Communication over Changes in Capital Assets

Unresolved. See current year finding 2009-1

2008-2 Need for Improved Control over Payroll

Resolved

2008-3 Adjustments Detected by the Audit Process

Unresolved. See current year finding 2009-2

2008-4 Need for Formal Documentation and Approval of Long-term Interfund Borrowing

Partially Resolved. The City has implemented the following to resolve this issue:

- During the fiscal year ended June 30, 2009, Fire Protection District and Parks and Recreation funds were consolidated into the City of Victorville General Fund.
- On September 15, 2009 the City Council authorized a \$20,000,000 loan agreement from the Water fund to the Victorville Municipal Utilities Fund. However, at June 30, 2009 the Municipal Utility fund had approximately \$800,000 cash overdraft that was remedied through an interfund borrowing that has not been formally authorized by the City Council.
- On September 15, 2009 the Redevelopment Agency Board of Directors authorized a \$10,000,000 loan from the Redevelopment Agency to the Southern California Logistic Airport Authority (SCLAA). The loan was made to cure the negative cash balance in SCLAA at June 30, 2009.

See current year finding 2009-3 for areas that still requires management's attention.

2008-5 Need for Improved Documentation of Compliance with Debt Covenants

Partially Resolved. The City has implemented the following to resolve this issue:

- The City Treasurer monitors and documents compliance over debt reserve requirements and continuing disclosures.

See current year finding 2009-4 for areas that still requires management's attention.

CITY OF VICTORVILLE
Summary Schedule of Prior Audit Findings
(Continued)

2008-6 Need for Enhanced Finance Department Involvement in Financial Statements Preparation

Partially Resolved. The City has implemented the following to resolve this issue:

- The City Treasurer has been assigned to monitor compliance over debt reserve requirements and continuing disclosures.

See current year finding 2009-5 for areas that still requires management's attention.

2008-7 Need for Improved Controls over Monitoring of Grants and Grant Reimbursement

Partially Resolved. The City has made an effort to analyze grant receivable at year end and to record as deferred revenue the grant receivables that are not received after the 90 days availability period.

See current year finding 2009-6 for areas that still requires management's attention.

2008-8 Need to Implement a City-Wide Ethics and Anti-Fraud Policy

Resolved